

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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May 19, 2009

Mr. Howard N. Dashiell  
Director of Transportation  
Mendocino County, Department of Transportation  
340 Lake Mendocino Drive  
Ukiah, CA 94582-9432

Re: Mendocino County, Department of Transportation  
Audit of Indirect Cost Rate Proposal Fiscal Year 2008 and Fiscal Year 2009  
File Number: P1190-0694

Dear Mr. Dashiell:

We have audited the Mendocino County, Department of Transportation's (MCDOT) Indirect Cost Rate Proposal (ICRP) for the fiscal year (FY) ended June 30, 2008, and June 30, 2009, to determine whether the ICRPs are presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The MCDOT management is responsible for the fair presentation of the ICRPs. The MCDOT proposed the following first tier and indirect cost rates:

	<b>FY 2008</b>	<b>FY 2009</b>
First Tier Rate	28.97%	27.64%
Indirect Rate	68.95%	61.45%

The first tier rate is a percentage of general overhead costs to total direct salaries and wages plus fringe benefits. The indirect cost rate is a percentage of indirect costs to total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MCDOT. Therefore, we did not audit and are not expressing an opinion on the MCDOT's financial statements

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MCDOT, as well as evaluating the overall presentation.

The accompanying ICRPs were prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and were not intended to present the results of operations of the MCDOT in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the rates and figures included in the ICRPs, a comparison of the proposed costs to the actual FY 2006 and FY 2007 costs, inquiries of MCDOT personnel, reliance placed on the single audit reports for the FYs ended June 30, 2006, and June 30, 2007, and prior audit field work performed by the Department staff in March 2004. We believe that our audit provides a reasonable basis for our conclusion.


Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

## AUDIT RESULTS

Based on audit work performed, MCDOT's ICRPs for the FYs ended June 30, 2008, and June 30, 2009, are presented in accordance with 2 CFR Part 225 and LPP 04-10. The indirect cost rates are approved as proposed and the approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of the MCDOT, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICRPs for your files. Copies were sent to the Department's District 1, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Carvin Seals Jr., Auditor, at (916) 323-7965 or Amada Maenpaa, Audit Manager, at (916) 323-7868.



MARYANN CAMPBELL-SMITH  
Chief, External Audits

- c: Brenda Bryant, Financial Services Director, Federal Highway Administration  
Sue Kiser, Planning and Air Quality, Federal Highway Administration  
Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass  
Transportation  
David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance,  
Division of Local Assistance  
Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division  
of Accounting.  
Suzi Theiss, Local Assistance Engineer, Planning and Local Programs, District 1

**County of Mendocino Department of Transportation**  
**Indirect Cost Rate Proposal**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the County of Mendocino Department of Transportation and approved by Caltrans.

**SECTION I: Rates**

<u>Rate Type</u>	<u>Effective Period</u>	<u>1<sup>st</sup> Tier Rate*</u>	<u>Indirect Rate**</u>	<u>Applicable to</u>
Fixed w/carry forward	7/1/07 to 6/30/08	28.97%	68.95%	All Programs

\* Base: Total Salaries and Wages plus fringe benefits

\*\*Base: Total Direct Salaries and Wages plus fringe benefits

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rates would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rates are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The rates are based on an estimate of the costs to be incurred during the period.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

**C. Fixed Rate with Carry Forward:**

The fixed rates used in this Agreement are based on an estimate of the costs for the period covered by the rates. When the actual costs for this period are determined by the grantee's Single Audit then by the grantee's audit financial statements—any differences between the application of the fixed rates and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward as an adjustment to the calculation of the indirect cost rates, to the second fiscal year subsequent to the fiscal year covered by this plan.

**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate to the appropriate base to identify the proper amount of indirect cost allocable to these programs.

**G. Rate Calculation**

	<b>G &amp; A First Tier Rate</b>	<b>MCDOT Indirect Cost Rate</b>
FY 2007 Actual Indirect Costs	\$1,236,442	\$2,016,678
Carry Forward from 2006	<u>\$4,976</u>	<u>\$414,952</u>
FY 2007 Indirect Costs	\$1,241,418	\$2,431,630
FY 2007 Actual Direct Salaries & Wages Plus Fringe Benefits	\$4,285,622	\$3,526,407
FY 2008 Rate(s)	28.97%	68.95%

## CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in the proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rates.

I declare that the foregoing is true and correct.

Governments Unit: Mendocino County Department of Transportation

Signature: Howard N. Dashiell

Signature: Patti Black

Reviewed, Approved and Submitted by:

Prepared by:

Howard N. Dashiell  
Director of Transportation  
Date: 6/5/2008

Patti Black  
Deputy Director of Transportation  
Date: 6/5/08

## INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Cliff R. Vore  
Signature

C. S. Jr.  
Signature

Reviewed and Approved by:

Reviewed and Approved by:

Mary Ann Campbell-Smith  
Name of Audit Manager

Carvin C. Seals Jr.  
Name of Auditor

Title: Chief, External Affairs Title: SMAS

Date: 19 May 2009 Date: May 14, 2009

Phone Number: (916) 323-7105 Phone Number: (916) 323-7965



**County of Mendocino Department of Transportation  
Indirect Cost Rate Proposal**

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Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

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FY 2007 Actual Indirect Costs	\$1,236,442	\$2,016,678
Carry Forward from 2007	<u>(\$51,816)</u>	<u>\$150,151</u>
FY 2007 Indirect Costs	\$1,184,626	\$2,166,829
FY 2007 Actual Direct Salaries & Wages Plus Fringe Benefits	\$4,285,622	\$3,526,407
FY 2009 Rate(s)	27.64%	61.45%



## CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

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- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rates.

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Governments Unit: Mendocino County Department of Transportation

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Signature: Patti Black

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Prepared by:

Howard N. Dashiell  
Director of Transportation  
Date: 6/5/2008

Patti Black  
Deputy Director of Transportation  
Date: 6/5/08

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Signature

C. S. T.  
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Mary Ann Campbell-Smith  
Name of Audit Manager

Carvin R. Seals Jr.  
Name of Auditor

Title: Chief, External Audits

Title: SMAS

Date: 19 May 2009

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